Havells has bright prospects

BSE Code: 517354
NSE Code: HAVELLS

Havells India

Financials

₹ crore	Q2 FY 11	Annual FY 10	Annual FY 11 (E)*
Net sales	1401.43	5431.53	5686.00
Operating profit	136.52	260.68	430.00
Net profit	70.52	69.56	265.00
EPS (in ₹)	11.30	11.56	21.24
Capital	31.19	30.08	62.39

Market details *Based on FY11E earnings estimates

Current mkt price (₹) 383.90	Price earnings (FY11E)* 18.08	Book value (₹) (FY 11)* 54.00
Enterprise value (₹ crore) (FY 11E)* 5640.00	Market cap (₹ crore) 4790.10	Price/book value (FY 11E)* 7.11

Share price on BSE ₹

Shareholding pattern as on Sept 2010 (%)

Nitin Shrivastava

With a pickup in construction and infrastructure spending, the electrical industry is seeing steady growth. Havells India Ltd, a leading electrical products brand in the country, would benefit from strong domestic growth and turnaround in its international business divisions.

Business: Havells India engages in manufacturing and sale of electrical and power distribution equipment in India and abroad. Havells' product portfolio offerings include industrial and domestic circuit protection switchgears, wires and cables, motors, fans, power capacitors, CFL lamps, luminaires, modular switches and electric geysers.

These products cover the gamut of household, commercial and industrial electrical needs (low voltage) and are sold under strong brand names such as Havells, Standard, Crabtree, Sylvania, Concord, Lumiance, Claude, Linolite and SLI Lighting.

The company has in the past few years, acquired Sylvania, a global lighting company, and Standard Electricals, a domestic electrical products company. While domestic operations contribute 50% to consolidated revenues, the rest of revenues come from Sylvania, which has strong foothold in European and Latin American markets and a few Asian countries.

MID-CAP MONITOR

Havells has 11 manufacturing units in India and six abroad. It has a pan-India presence through 4,300 wholesalers and 35,000 retailers.

The company's products are divided into 4 broad segments — switchgears, cable and wires, lighting and electrical consumer durables, which contribute 28%, 40%, 16% and 16% respectively, to standalone revenues.

Havells is a leader in domestic miniature circuit breakers (MCBs) and ranked No 1 with a market share close to 20%, while it is among the top 4 in industrial switchgears. It occupies second position in cable and wires and CFLs, while it is the third largest player in electric fans with a market share of 18%.

Investment rationale: With construction and infrastructure spends in the power sector picking up, the domestic electrical equipment industry has witnessed a pickup in demand and registered a 16.60% growth in the first half of the current fiscal, as per the Indian Electrical and Electronics Manufacturers' Association.

Construction activities related to residential, commercial and industrial premises are seeing revival, which would benefit Havells as it is among the top 4 players in its product segments.

Also, customers' preference for branded and aesthetic products has increased, driven by higher disposable income. Further, the huge investments lined up in power, steel and cement sector would drive growth in MCBs and other industrial switchgears, where Havells has a strong brand name and good market share.

The company owns global brands and continues to invest consistently in brand promotion. This has led to strong brand recall.

The company derives almost uniform revenues from all regions in India. Havells is also looking to increase its direct presence in tier II and tier III cities and rural areas by taking the number of 'Havells Galaxy' shops from 57 to 120 by the end of this fiscal.

The company has been successful in turning around its international operations, which has led to Sylvania breaking even at PAT level in the last quarter. The management expects to attain Ebitda margins of 7-8% for the current fiscal and 9-10% for FY12, which would support strong domestic growth and lead to higher earnings growth.

Havells is looking to leverage Sylvania to enter other emerging markets. Also, it is looking to launch new products in associated categories — it recently launched energy-efficient products to cater to the ₹800 crore electric water heater market.

Concerns: Any further slowdown in Europe, from where Havells generates substantial revenues, would impact earnings growth. Any adverse increase in costs of key raw materials like metals or price cuts due to stiff competition may also affect earnings.

Valuations: Driven by robust demand in the domestic market and increasing penetration in other emerging markets, the company's revenues are expected to grow at a CAGR of 9% over FY10-12E.

Also, the full effect of restructuring would be seen next fiscal (FY12E) when profit is expected to grow to ₹380 crore from ₹69.56 crore in FY10.

At current market price of ₹383.90, the stock trades at a P/E ratio of 18.08x its expected consolidated FY11 earnings and 12.61x its FY12E consolidated earnings. One can consider entering the stock on dips from medium- to long-term perspective.

Disclaimer: The writer does not hold any shares in the company